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Elevated status

Content management software is in high demand as a strategic element of regulatory compliance – but market consolidation may unsettle buyers.

Compliance and the exponential growth of information: two themes that come up time and again in many different sectors of corporate IT. Within the enterprise content management (ECM) industry they have immense importance and are the two principal reasons why many vendors in this still-fragmented market are growing their influence within the enterprise - as well as their revenues.

These big themes have also been the catalyst for a feeding frenzy of M&A activity over the past two years as major vendors from outside the sector, such as storage company EMC and IBM, have decided they want a slice of the action. So ECM pioneers like Vignette and Open Text are picking up some of their rivals to establish the levels of critical mass that will ensure their longevity.

The reasons for the rapid consolidation are well-documented. The management of unstructured digital content - whether stored documents or web sites, emails or scanned images - has become ever more of a challenge for all organisations. For those burdened with hefty compliance obligations, content management is now a must-have as the management of their records - the ability to store, find and search their contents - has become the means of demonstrating their adherence to regulations or the audit trail of their actions.

Furthermore, content management has become a major component in customer relationship management (CRM), with unstructured data helping to provide a fuller picture of the customer through the integration of their correspondence and contracts with transactional data.

"It used to be all the rage to have ERP [enterprise resource planning] and CRM, whereas ECM, while it was a term in the marketplace, was never deemed as important," says Jeff Klein, a vice president of global services at First Consulting Group, a company providing consultancy to the pharmaceutical industry. "Now it's taken hold in terms of a philosophy - if you talk to CIOs, it is their number one or two priority and they're now dedicating [serious] money to it."

Tom Hogan, CEO of content management supplier Vignette, likes the sound of that: "The MD or CEO used to care about turnover, profits and, if they were the head of a good company, customer service. Now compliance has a seat at the breakfast table, because those very people could be held personally liable [if content is mismanaged] and any breach can seriously affect shareholder value."

Since the notion of 'content' covers such a wide spectrum, it is hardly surprising that the market is still fragmented - even after rampant consolidation - with specialty areas including web content, scanned image, records and search management, as well as traditional document management. The matrix of suppliers also contains many vertical industry specialists.

Alan Pelz-Sharpe, an analyst at industry watcher Ovum, says that defines the shape of the market: "Although there is huge potential for growth, the market is far more complex and diverse than many seem to realise." Its growth is not going to mirror that of the relational database market, where Oracle and IBM took the spoils. "There are many opportunities and many potential winners," says Pelz-Sharpe.

Indeed vendors are aware that they need to choose their battlegrounds carefully in a market which many, such as EMC Documentum's Dave Gringell, think is "still overcrowded". That is a sentiment echoed by Andy Baldrian, the

ECM Market

By 2008, organisations worldwide will be spending more than \$7 billion annually on document and content management software. According to IT market research firm InfoTrends/CAP Ventures, growth in the sector over the next three years will run at an average of 18.1%.

Factors such as increased interest in compliance and records management, and the need to make information available through multiple media sources have contributed to the market's significant growth. InfoTrends says that a fundamental shift is underway in the sector. Enterprise content management (ECM) accounted for only 9% of the total market in 2003, with traditional document management technologies taking the lion's share. But by 2008, the ECM proportion will rise to 32%.

"While many of our industry competitors view ECM as a superset of the other market segments, this forecast views the buying behaviour for ECM as cannibalising the other individual segments' market opportunities," says Michael Maziarka, an analyst at InfoTrends.

Remarkable growth of over 60% is also projected in the hosted services category, which is expected to become a \$500 million segment by 2008.

CTO of ECM vendor, Sift: "Every [player] has to have a distinct identity to make their existence viable."

As a general rule, those with the longest heritage in content management are strongest in document-intensive industries or industries with traditionally stringent regulations, like insurance, pharmaceuticals and banking. However, ECM is becoming more popular as a means of deploying basic information controls, and in this case broader IT vendors - especially the vendors of structured data management software such as Oracle, IBM and Microsoft - see a much wider role for themselves.

Changing dynamics

As such, ECM is not always viewed as a differentiator in itself. Baldrian explains: "Increasingly the big content management vendors talk about knowledge management or taxonomy or search. Most of these technologies are being seen as commodities, so the trick is to do something with them that relates directly to a particular business issue the customer needs to address."

If some vanilla content management products are being relegated to commodity status, then that is due to the way the technology is being implemented by larger software vendors. IBM, for example, bills its ECM offering as a component of its DB2 database family. And Microsoft can afford to push content management functionality down into its system software.

Reflecting such developments, a recent Forrester client survey identified Microsoft above all others "as the vendor of most interest for ECM and related components".

This will force out many smaller players and prompt further acquisitions. Connie Moore, an analyst at Forrester, thinks FileNet, Interwoven, Hummingbird, Open Text, Stellent and Vignette are potential merger partners or targets for acquisition. And Gartner estimates there is an 80% chance that, by the end of 2007, "50% of the top six ECM vendors will merge or be acquired". It points to Hewlett-Packard (HP) as a company likely to enter the market by the end of 2006. This is due to the fact that HP has been securing imaging deals and now, according to Gartner analysts, has "realised that it needs commercial grade ECM capabilities to drive more of its services deals".

While the wave of convergence might signal a maturing of the market, it has consequences in terms of product lifespan and integration. Jason Burton, a senior consultant at ECM systems integrator cScape, thinks convergence normally means "bolting bits onto existing products, rather than ground-up re-engineering. Document management vendors offering web content management, web content vendors repositioning themselves as portal platforms and so on."

Database invaders

When discussing the evolution of the content management sector, a parallel that often creeps up is with the relational database market. "Up until the early 1990s there were about 25 relational database vendors; now we pretty much have three - Oracle, IBM's DB2 and Microsoft's SQL Server," says EMC Documentum's Gringell. "That's not to say that there's no room left for niche players - look at Sybase in financial services, for example. But essentially the big infrastructure vendors will provide the backbone and then there will be

many application providers on top."

Hence it is of little surprise that Oracle, which has tasted so much success in the database sector, is now moving into the management of unstructured data. Rich Buchheim, a senior director of ECM strategy at the company, is bullish: "The content management industry is ripe for picking. We want to do to this sector what we did to the database market." Oracle's content management offering, Oracle Files 10g, is expected to ship this summer. Yet vendors with a long content management heritage do not seem intimidated by Oracle's ambitions, emphasising the differences between providing a database for structured data and a repository for unstructured data. Brenda Morris, regional vice president of Northern Europe for ECM company FileNet, thinks there is still plenty of demand for higher-level offerings: "Database companies still sit firmly in the structured data environment. Content management is not their only focus."

However, Oracle's entry into the ECM market underscores one of the major trends - to expand the use of content tools right across the enterprise. Instead of content management being restricted to administrators, vendors want to be able to scale their products so they are a feature of every desktop. Oracle, for one, claims its new ECM product will support up to 55,000 users.

"The democratisation of [ECM] has been fundamental to our philosophy all along," says Bob Olson, CEO of content management vendor Stellent. "I believe anyone should be able to handle something that can become a record, which means everyone across the organisation should have a [content management] browser." A key mechanism for distributing content management to the masses, yet retaining control, is to deliver the capability over the web. Document management has become unwieldy for individual users, and 'on-demand' content management balances the equation between flexibility and control, says Mark Suster, CEO of content management application service provider BuildOnline.

Compliant content

Oracle's timing is no coincidence. Like other ECM vendors, it hopes to reap substantial rewards as organisations make large-scale commitments to compliance strategies.

According to Vignette's Hogan, "2005 will be the year when companies evaluate their initial compliance investments, and in 2006 they will start reinvesting, in a more efficient and less panic-stricken way."

In the immediate post-Enron haze, there was a temptation to throw money at expensive, specialist solutions, he says, without necessarily following through with the establishment of enterprise-wide best practices. Now though, organisations are embarking on strategies and long-term investments in compliance technologies - and ECM has been identified as a core component of that investment.

Colin Foster, the UK MD at Hummingbird enthuses about the possibilities: "In our experience, compliance is often used as the deal clincher. It helps achieve sign-off from the board for ECM systems that IT staff may have been trying to roll out for some time."

Some areas where ECM use is mature indicate how the wider market may play out. In pharmaceuticals, says Klein of First Consulting Group, "five years ago, 90% of investment in content management was down to regulations; now it's about 60%. Companies are finding it valuable for other reasons, especially for allowing better collaboration between development teams. If you have an ECM strategy you can lock down all that content - that kind of compliance is a new driver."

As that suggests, compliance may prove to be the Trojan horse that elevates content management at most organisations from a tactic to a strategy.

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